

FINANCIAL AUDIT  
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT  
OF THE

DEPARTMENT OF STATE

October 1, 1996 through September 30, 1998

## EXECUTIVE DIGEST

# DEPARTMENT OF STATE

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### INTRODUCTION

This report contains the results of our financial audit\*, including the provisions of the Single Audit Act, of the Department of State for the period October 1, 1996 through September 30, 1998.

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### AUDIT PURPOSE

This financial audit of the Department was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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### BACKGROUND

The mission\* of the Department of State is to provide the most efficient and effective services to the people of Michigan through the licensing of drivers and the registration and titling of vehicles; the regulation of automobile dealers and repair facilities; the registration of voters and administration of elections; the preservation of Michigan's history; and the streamlined collection of revenue.

The deputy Secretary of State for Department Services Administration is responsible for the financial and

\* See glossary at end of report for definition.

administrative operations of the Department, including federal grant management.

For the fiscal year ended September 30, 1998, the Department collected \$1.9 billion in revenue and operating transfers in and had expenditures and operating transfers out of \$148.6 million. As of September 30, 1998, the Department had 2,268 employees.

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AUDIT OBJECTIVES  
AND CONCLUSIONS

**Audit Objective:** To audit the Department's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

**Conclusion:** We expressed an unqualified opinion on the Department's financial schedules.

**Audit Objective:** To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control\* over financial reporting, based on our audit of the financial schedules.

**Conclusion:** Our assessment of compliance did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses\* .

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan*

\* See glossary at end of report for definition.

*Compiled Laws* pertaining to its systems of internal accounting and administrative control.

**Audit Objective:** To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

**Conclusion:** Our assessment of compliance applicable to the Department's major federal program did not disclose any instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. Also, our assessment of internal control over compliance applicable to the Department's major federal program did not disclose any material weaknesses.

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Department of State for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

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**PRIOR AUDIT FOLLOW-UP**

As disclosed in the Department's summary schedule of prior audit findings, the Department complied with all 9 of the prior Single Audit\* recommendations included in the 6 prior audit findings.

\* See glossary at end of report for definition.

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The Honorable Candice S. Miller  
Secretary of State  
Treasury Building  
Lansing, Michigan

Dear Secretary Miller:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of State for the period October 1, 1996 through September 30, 1998.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Department of State financial schedules and notes to the financial schedules, required supplementary information, supplemental financial schedules, other required schedules, and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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# **TABLE OF CONTENTS**

## **DEPARTMENT OF STATE**

### **INTRODUCTION**

	<u>Page</u>
Executive Digest	1
Report Letter	5
Description of Agency	9
Audit Objectives and Conclusions, Audit Scope, and Prior Audit Follow-Up	11

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Section I: Summary of Auditor's Results	13
Section II: Findings Related to the Financial Schedules	14
Section III: Findings and Questioned Costs Related to Federal Awards	14

### **INDEPENDENT AUDITOR'S REPORTS AND FINANCIAL SCHEDULES**

Independent Auditor's Report on the Financial Schedules	15
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	17
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	19
Department of State Financial Schedules	
Schedule of Revenue and Operating Transfers	21
Schedule of Sources and Disposition of General Fund Authorizations	22
Notes to the Financial Schedules	23

## REQUIRED SUPPLEMENTARY INFORMATION

Year 2000 Issues	27
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## SUPPLEMENTAL FINANCIAL SCHEDULES

Schedule of Revenue - Special Revenue Funds	32
Schedule of Revenue - Expendable Trust Funds	34
Schedule of Certain General Fund Assets and Liabilities	35
Schedule of Expenditures of Federal Awards	36

## OTHER REQUIRED SCHEDULES

Summary Schedule of Prior Audit Findings	39
Corrective Action Plan	41

## GLOSSARY

Glossary of Acronyms and Terms	42
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## Description of Agency

The Department of State is 1 of 18 principal departments of Michigan government. The Department's executive officer is the Secretary of State, an elected official with a four-year term. The Department is responsible for registering motor vehicles; licensing motor vehicle operators, chauffeurs, motor repair facilities, motor vehicle dealers, motor vehicles, watercraft, snowmobiles, and motorcycles; and collecting the fees and taxes thereon. The Department's responsibilities also include regulating Michigan elections; registering lobbyists; certifying mechanics; and preserving historical governmental and public records.

The mission of the Department of State is to provide the most efficient and effective services to the people of Michigan through the licensing of drivers and the registration and titling of vehicles; the regulation of automobile dealers and repair facilities; the registration of voters and administration of elections; the preservation of Michigan's history; and the streamlined collection of revenue.

The Department is organized into the Executive Office and three main organizational units: Department Services Administration, Regulatory Services Administration, and Service Delivery Administration. Each of the three organizational units is headed by a deputy Secretary of State.

The deputy Secretary of State for Department Services Administration is responsible for the financial and administrative operations of the Department, including federal grant management and historical preservation. The deputy Secretary of State for Department Services Administration is also responsible for overseeing the operations of the Bureau of Elections, Bureau of Administrative Services, Bureau of Resource Management Systems, Office of Policy and Planning, and Michigan Historical Center.

The deputy Secretary of State for Regulatory Services Administration is responsible for overseeing the operations of the Bureau of Automotive Regulation and the Bureau of Legal Services. The deputy Secretary of State for Service Delivery Administration is

responsible for overseeing the operations of the Bureau of Driver and Vehicle Records and the Bureau of Branch Office Services, including 178 branch offices.

For the fiscal year ended September 30, 1998, the Department collected \$1.9 billion in revenue and operating transfers in and had expenditures and operating transfers out of \$148.6 million. As of September 30, 1998, the Department had 2,268 employees.

## Audit Objectives and Conclusions, Audit Scope, and Prior Audit Follow-Up

### Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Department of State had the following objectives:

1. To audit the Department's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

We expressed an unqualified opinion on the Department's financial schedules.

2. To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control over financial reporting, based on our audit of the financial schedules.

Our assessment of compliance did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

3. To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

Our assessment of compliance applicable to the Department's major federal program did not disclose any instances of noncompliance that are required to be

reported in accordance with OMB Circular A-133. Also, our assessment of internal control over compliance applicable to the Department's major federal program did not disclose any material weaknesses.

### Audit Scope

Our audit scope was to examine the financial and other records of the Department of State for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We considered the Department's internal control over compliance applicable to each major federal program and assessed the Department's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on the Department's summary schedule of prior audit findings. The Department's major federal program is identified in Section I of the schedule of findings and questioned costs\* .

### Prior Audit Follow-Up

As disclosed in the Department's summary schedule of prior audit findings, the Department complied with all 9 of the prior Single Audit recommendations included in the 6 prior audit findings.

\* See glossary at end of report for definition.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section I: Summary of Auditor's Results

### Financial Schedules

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions* identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial schedules?	No

### Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	No

\* See glossary at end of report for definition.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
15.904	Historic Preservation Fund Grants-In-Aid

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee\* ? No

## **Section II: Findings Related to the Financial Schedules**

We did not report any audit findings.

**The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.**

## **Section III: Findings and Questioned Costs Related to Federal Awards**

We did not report any audit findings.

**There were no prior audit findings related to federal awards.**

\* See glossary at end of report for definition.

Independent Auditor's Report on  
the Financial Schedules

May 21, 1999

The Honorable Candice S. Miller  
Secretary of State  
Treasury Building  
Lansing, Michigan

Dear Secretary Miller:

We have audited the accompanying schedule of revenue and operating transfers - General Fund, special revenue funds, and expendable trust funds and the schedule of sources and disposition of General Fund authorizations of the Department of State for the fiscal years ended September 30, 1998 and September 30, 1997. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The governmental operations of the Department are accounted for principally in the General Fund of the State of Michigan. In addition, the Department is responsible for collecting fees for various special revenue funds and expendable trust funds.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers for the Department's General Fund, special revenue funds, and expendable trust funds and the sources and disposition of authorizations for the Department's General Fund accounts, presented on the modified accrual basis of

accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of the Department or the State's General Fund, its special revenue funds, or its expendable trust funds in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Department of State for the fiscal years ended September 30, 1998 and September 30, 1997, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 21, 1999 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial schedules, consisting of the schedule of revenue - special revenue funds, schedule of revenue - expendable trust funds, and schedule of Certain General Fund assets and liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

The year 2000 supplementary information on page 27 is not a required part of the basic financial schedules but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

AUDITOR GENERAL

Independent Auditor's Report on Compliance and  
on Internal Control Over Financial Reporting

May 21, 1999

The Honorable Candice S. Miller  
Secretary of State  
Treasury Building  
Lansing, Michigan

Dear Secretary Miller:

We have audited the financial schedules of the Department of State for the fiscal years ended September 30, 1998 and September 30, 1997 and have issued our report thereon dated May 21, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control

components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on Compliance With  
Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133

May 21, 1999

The Honorable Candice S. Miller  
Secretary of State  
Treasury Building  
Lansing, Michigan

Dear Secretary Miller:

Compliance

We have audited the compliance of the Department of State with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 1998 and September 30, 1997. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of State complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 1998 and September 30, 1997.

#### Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

DEPARTMENT OF STATE  
Schedule of Revenue and Operating Transfers  
General Fund, Special Revenue Funds, and Expendable Trust Funds  
For the Fiscal Years Ended September 30, 1998 and 1997  
(In Thousands)

	General Fund		Special Revenue Funds		Expendable Trust Funds		Totals (Memorandum Only)	
	1998	1997	1998	1997	1998	1997	1998	1997
	<b>REVENUE</b>							
Taxes:								
Sales taxes	\$ 222,642	\$ 213,206	\$ 612,102	\$ 586,217	\$	\$	\$ 834,744	\$ 799,423
Use taxes	97,602	94,594	48,794	47,290			146,396	141,884
Resident motor vehicle taxes			625,795	564,523			625,795	564,523
Nonresident motor vehicle taxes			38,635	29,219			38,635	29,219
Total taxes	<u>\$ 320,244</u>	<u>\$ 307,800</u>	<u>\$ 1,325,326</u>	<u>\$ 1,227,249</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,645,570</u>	<u>\$ 1,535,050</u>
Federal agencies	\$ 642	\$ 607	\$ 0	\$ 0	\$ 0	\$ 0	\$ 642	\$ 607
From services:								
Commercial lookup fees	\$ 27,946	\$ 28,290	\$	\$	\$	\$	\$ 27,946	\$ 28,290
Other	2,625	2,420					2,625	2,420
Total from services	<u>\$ 30,571</u>	<u>\$ 30,710</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 30,571</u>	<u>\$ 30,710</u>
From licenses and permits:								
Motor vehicle operator and chauffeur licenses	\$ 20,396	\$ 22,017	\$ 10,348	\$ 10,462	\$	\$	\$ 30,744	\$ 32,479
Auto repair facility and mechanic licenses	4,325	4,370					4,325	4,370
Motor vehicle annual license transfer fee			9,997	9,785			9,997	9,785
Motor vehicle title fees			34,931	34,448			34,931	34,448
Watercraft registrations			9,651	9,329			9,651	9,329
Other	22,525	20,820	10,676	14,006			33,201	34,826
Total from licenses and permits	<u>\$ 47,246</u>	<u>\$ 47,207</u>	<u>\$ 75,603</u>	<u>\$ 78,030</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 122,849</u>	<u>\$ 125,237</u>
Miscellaneous	\$ 1,569	\$ 1,269	\$ 0	\$ 0	\$ 40,893	\$ 39,589	\$ 42,462	\$ 40,858
Total Revenue	<u>\$ 400,273</u>	<u>\$ 387,593</u>	<u>\$ 1,400,929</u>	<u>\$ 1,305,279</u>	<u>\$ 40,893</u>	<u>\$ 39,589</u>	<u>\$ 1,842,094</u>	<u>\$ 1,732,462</u>
<b>OPERATING TRANSFERS</b>								
From special revenue funds:								
Michigan Transportation Fund	\$ 35,651	\$ 82,010	\$	\$	\$	\$	\$ 35,651	\$ 82,010
Marine Safety Fund	897	916					897	916
Total from special revenue funds	<u>\$ 36,549</u>	<u>\$ 82,926</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 36,549</u>	<u>\$ 82,926</u>
From expendable trust funds:								
Gifts, Bequests, and Deposits Investment Fund	\$ 59	\$ 60	\$	\$	\$	\$	\$ 59	\$ 60
Assigned Claims Plan Fund	560	637					560	637
Total from expendable trust funds	<u>\$ 618</u>	<u>\$ 697</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 618</u>	<u>\$ 697</u>
Total Operating Transfers	<u>\$ 37,167</u>	<u>\$ 83,623</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 37,167</u>	<u>\$ 83,623</u>
Total Revenue and Operating Transfers (Note 2)	<u>\$ 437,440</u>	<u>\$ 471,216</u>	<u>\$ 1,400,929</u>	<u>\$ 1,305,279</u>	<u>\$ 40,893</u>	<u>\$ 39,589</u>	<u>\$ 1,879,261</u>	<u>\$ 1,816,085</u>

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF STATE  
Schedule of Sources and Disposition of General Fund Authorizations  
Fiscal Years Ended September 30  
(In Thousands)

	1998	1997
<b>SOURCES OF AUTHORIZATIONS (Note 3)</b>		
General purpose appropriations	\$ 60,041	\$ 21,887
Balances carried forward	18,416	12,521
Restricted financing sources	89,860	135,205
Total	\$ 168,316	\$ 169,613
 <b>DISPOSITION OF AUTHORIZATIONS (Note 3)</b>		
Expenditures and operating transfers out	\$ 148,645	\$ 150,799
Balances carried forward:		
Multi-year projects	\$ 3,770	\$ 4,589
Encumbrances	5,733	6,106
Restricted revenue - authorized	657	821
Restricted revenue - not authorized/used	8,315	6,899
Total balances carried forward	\$ 18,476	\$ 18,416
Balances lapsed	\$ 1,207	\$ 398
Overexpended	\$ (12)	\$
Total	\$ 168,316	\$ 169,613

The accompanying notes are an integral part of the financial schedules.

## Notes to the Financial Schedules

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial schedules report the results of the governmental operations of the Department of State for the fiscal years ended September 30, 1998 and September 30, 1997. The governmental operations of the Department are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. In addition, the Department is responsible for collecting fees for various funds, as discussed in Note 2.

The notes accompanying these financial schedules relate directly to the Department. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, and Compensated Absences.

#### b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds and expendable trust funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers for the Department's General Fund, special revenue funds, and expendable trust funds and the sources and disposition of authorizations for the Department's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of the Department or the State's General Fund, its special revenue funds, or its expendable trust funds in accordance with generally accepted accounting principles.

Note 2 Schedule of Revenue and Operating Transfers

The Department of State is responsible for collecting taxes and other revenues related to its own operations and those of certain other State departments. These revenues are accounted for in the General Fund, special revenue funds, and expendable trust funds. The special revenue funds include the Michigan Transportation Fund, State Trunkline Fund, Michigan State Waterways Fund, School Aid Fund, and Marine Safety Fund. The expendable trust funds include the Gifts, Bequests, and Deposits Investment Fund and the Assigned Claims Plan Fund. The amounts shown in the schedule of revenue and operating transfers represent only the amounts collected by the Department of State and do not represent total fund revenue and operating transfers for the funds.

Note 3 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriation and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized/used that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized/used.
- c. Restricted financing sources: Collections of restricted revenues, restricted operating transfers, and restricted interfund expenditure reimbursements to finance Department programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized/used.

- d. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. Examples of significant carry-forwards of this type are the License Tab Printer Project, Inventory System for License Plates and Documents, and Renewal by Mail Lock Box Project.
- e. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- f. Restricted revenue - authorized: Revenue that, by statute or the State Constitution, is restricted for use to a particular Department program or activity. Generally, this revenue may be expended upon receipt without additional legislative authorization. Examples of significant carry-forwards of this type are revenues from the sale of vehicle code books, the museum store, and Heritage Fund publications.
- g. Restricted revenue - not authorized/used: Revenue that, by statute, is restricted for use to a particular Department program or activity, including revenue set aside to fund encumbrances in that particular Department program or activity. However, the expenditure of the portion of restricted revenue not set aside for encumbrances is subject to annual legislative appropriation. Examples of significant carry-forwards of this type are revenues from fees for looking up driver and vehicle records, driver license fees, and fees for filing Uniform Commercial Code liens on personal property.
- h. Balances lapsed - Department authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- i. Overexpended - The total of the Department's overexpenditure of line-item authorizations. The Department is required to seek a supplemental appropriation to authorize the expenditure.

# REQUIRED SUPPLEMENTARY INFORMATION

## Year 2000 Issues

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1, entitled *Disclosures about Year 2000 Issues*. The provisions of the GASB Technical Bulletin, effective for financial schedules on which the auditor's report is dated after October 31, 1998, require the Department of State to make disclosures in the notes to the financial schedules about its readiness in addressing year 2000 issues for its computer systems and other electronic equipment. In March 1999, GASB issued an amended Technical Bulletin, 99-1, allowing disclosure of year 2000 issues in required supplementary information or in the notes to the financial schedules. Retroactive application was allowed.

The year 2000 issue is the result of shortcomings in electronic data-processing systems and other electronic equipment that may adversely affect operations in the year 1999 and beyond. To address the year 2000 issues, the State established the Year 2000 Project Office within the Department of Management and Budget. The Year 2000 Project Office's mission is to lead, support, and facilitate achievement of year 2000 compliance throughout the State's executive branch to ensure uninterrupted service to Michigan's citizens. The Year 2000 Project Office is monitoring year 2000 compliance efforts at the various agencies and is providing assistance and assigning resources to accelerate compliance for all mission critical systems and equipment.

Disclosures regarding the Statewide year 2000 remediation efforts are available in the *State of Michigan Comprehensive Annual Financial Report* for the fiscal year ended September 30, 1998.

An executive directive, issued in February 1998, directed all executive branch agencies to make the year 2000 issue the number one priority. As a result, the State developed a comprehensive risk management program that identified risks faced by the State concerning year 2000 operability.

The Department's Bureau of Resource Management Systems has overall responsibility for the implementation of year 2000 systems at the Department.

The following stages have been identified as necessary to implement a year 2000 compliant system:

- (1) Awareness stage - encompasses establishing a budget and project plan for dealing with the year 2000 issue.
- (2) Assessment stage - when the organization begins the actual process of identifying all of its systems and individual components of the systems. An organization may decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission critical systems and equipment to check for compliance.
- (3) Remediation stage - when the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant, and the required system changes are made.
- (4) Validation/Testing stage - when the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

The Department identified 14 computer applications that are critical to conducting its operations and that need to be year 2000 compliance. The Department has received written assurance for those critical applications being evaluated by outside vendors. The Department is also responsible for assessing the status of computer equipment and replacing or upgrading the equipment as needed. The Department expects to complete this assessment on or before October 1, 1999.

The Department's year 2000 remediation efforts have been aimed primarily at ensuring unimpeded and uninterrupted operation, including the issuance of vehicle titles and registrations, driver licenses, and personal identification cards and the accounting for the revenue collected. As of September 30, 1998, the Department had validated and

tested 36% of the 14 mission critical computer applications. The remaining 64% of the critical applications were in other stages of completion.

The Legislature appropriated \$55.6 million to the State Project Office to provide assistance to agencies in obtaining external resources to address year 2000 issues. As of September 30, 1998, the Department had expended \$110,985 of the Statewide appropriation. In addition, the Department has expended \$110,985 of its own appropriation toward the year 2000 remediation efforts. The Department had \$106,730 in contracts outstanding with vendors on September 30, 1998.

Management believes that the Department has the correct plan in place and that the Department will be able to process date and/or date-related information correctly prior to, during, and after January 1, 2000. However, because of the unprecedented nature of the year 2000 issue, its effect and the success of the related remediation efforts cannot be fully determinable until the year 2000 and thereafter. Consequently, management cannot guarantee that the Department is or will be year 2000 ready, that the Department's remediation efforts will be successful in whole or in part, or that parties with whom the Department does business will be year 2000 ready.

As of December 31, 1998, the Department had validated and tested 86% of the 14 mission critical computer applications. The remaining 14% of the critical applications were scheduled for retirement as their functionality was being replaced by new applications.

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# SUPPLEMENTAL FINANCIAL SCHEDULES

DEPARTMENT OF STATE  
Schedule of Revenue - Special Revenue Funds  
Fiscal Years Ended September 30  
(In Thousands)

	<u>Michigan Transportation Fund</u>		<u>State Trunkline Fund</u>		<u>Michigan State Waterways Fund</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
<b>REVENUE</b>						
Taxes:						
Sales taxes	\$	\$	\$	\$	\$	\$
Use taxes						
Resident motor vehicle taxes	625,795	564,523				
Nonresident motor vehicle taxes	<u>38,635</u>	<u>29,219</u>				
Total taxes	<u>\$ 664,430</u>	<u>\$ 593,742</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
From licenses and permits:						
Motor vehicle operator and chauffeur licenses	\$	\$	\$ 10,348	\$ 10,462	\$	\$
Motor vehicle annual license transfer fee	9,997	9,785				
Motor vehicle title fees	34,931	34,448				
Watercraft registrations					4,922	4,758
Other	<u>10,676</u>	<u>14,006</u>				
Total from licenses and permits	<u>\$ 55,604</u>	<u>\$ 58,239</u>	<u>\$ 10,348</u>	<u>\$ 10,462</u>	<u>\$ 4,922</u>	<u>\$ 4,758</u>
Total Revenue	<u>\$ 720,034</u>	<u>\$ 651,982</u>	<u>\$ 10,348</u>	<u>\$ 10,462</u>	<u>\$ 4,922</u>	<u>\$ 4,758</u>

The amounts shown represent only the amounts collected by the Department of State and do not represent total revenue for the funds.

<u>School Aid Fund</u>		<u>Marine Safety Fund</u>		<u>Total</u> <u>Special Revenue Funds</u>	
<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
\$ 612,102	\$ 586,217	\$	\$	\$ 612,102	\$ 586,217
48,794	47,290			48,794	47,290
				625,795	564,523
				<u>38,635</u>	<u>29,219</u>
<u>\$ 660,896</u>	<u>\$ 633,507</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,325,326</u>	<u>\$ 1,227,249</u>
\$	\$	\$	\$	\$ 10,348	\$ 10,462
				9,997	9,785
				34,931	34,448
		4,729	4,571	9,651	9,329
				<u>10,676</u>	<u>14,006</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,729</u>	<u>\$ 4,571</u>	<u>\$ 75,603</u>	<u>\$ 78,030</u>
<u>\$ 660,896</u>	<u>\$ 633,507</u>	<u>\$ 4,729</u>	<u>\$ 4,571</u>	<u>\$ 1,400,929</u>	<u>\$ 1,305,279</u>

DEPARTMENT OF STATE  
Schedule of Revenue - Expendable Trust Funds  
Fiscal Years Ended September 30  
(In Thousands)

	Gifts, Bequests, and Deposits		Assigned Claims		Total Expendable	
	<u>Investment Fund</u>		<u>Plan Fund</u>		<u>Trust Funds</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
REVENUE						
Miscellaneous:						
History donations	\$ 16	\$ 6	\$	\$	\$ 16	\$ 6
Mann House trust	32	32			32	32
Museum donations	1	1			1	1
Munson revenue	4	9			4	9
Assessments to insurers			40,163	38,838	40,163	38,838
Uninsured motorists			677	695	677	695
Interest			1	9	1	9
Total Revenue	<u>\$ 52</u>	<u>\$ 48</u>	<u>\$ 40,841</u>	<u>\$ 39,542</u>	<u>\$ 40,893</u>	<u>\$ 39,589</u>

The amounts shown represent only the amounts collected by the Department of State and do not represent total revenue for the funds.

DEPARTMENT OF STATE  
 Schedule of Certain General Fund Assets and Liabilities  
As of September 30  
 (In Thousands)

	<u>1998</u>	<u>1997</u>
<b>ASSETS</b>		
Accounts Receivable:		
From services provided	\$ 3,584	\$ 3,720
From district courts	\$ 486	\$ 501
From federal agencies	\$ 201	\$ 161
Checks returned for not sufficient funds	\$ 1,446	\$ 1,379
Miscellaneous	\$ 3,957	\$ 2,967
<b>LIABILITIES</b>		
Deferred revenue	\$ 276	\$ 250
Accounts payable	\$ 91	\$ 1,234
Unearned receipts payable	\$ 137	\$ 124
Due to other funds	\$ 5	\$ 42
Due to component units	\$ 82	\$ 94
Other recognized liabilities		\$ 3,870

This schedule presents certain General Fund assets and liabilities that result from the operations of, and are the responsibility of, the Department of State. The schedule excludes certain other assets, such as equity in common cash and cash in transit, and certain other liabilities, such as warrants outstanding, which are accounted for centrally by the State.

DEPARTMENT OF STATE  
Schedule of Expenditures of Federal Awards\*  
For the Period October 1, 1996 through September 30, 1998  
(In Thousands)

<u>Federal Agency/Program</u>	<u>CFDA **</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification</u> <u>Number</u>
<b><u>U.S. Department of the Interior</u></b>		
Historic Preservation Fund Grants-In-Aid	15.904	
National Center for Preservation Technology and Training	15.923	
<b>Total U.S. Department of the Interior</b>		
<b><u>U.S. Department of Agriculture</u></b>		
Pass-Through Program		
Michigan Department of Natural Resources		
Cooperative Forestry Assistance - Lumbering Video	10.664	
<b>Total U.S. Department of Agriculture</b>		
<b><u>U.S. Department of Commerce</u></b>		
Pass-Through Program		
Michigan Department of Environmental Quality		
Coastal Zone Management Administration Awards		
Copper Harbor Exhibits	11.419	98CE-13-03
State Archives Coastal Photos	11.419	98CD-0.03
Fort Wilkins Copper Harbor Lighthouse Restoration	11.419	97CE-13.098
Underwater Database	11.419	97D-0.19
Fayette Master Plan	11.419	96CD-12.01
Fort Wilkins Copper Harbor Lighthouse Restoration	11.419	97E13.098
<b>Total U.S. Department of Commerce</b>		
<b>National Foundation on the Arts and the Humanities</b>		
Institute of Museum and Library Services	45.301	
<b>Total National Foundation on the Arts and the Humanities</b>		
<b>National Archives and Records Administration</b>		
National Historical Publications and Records Grant	89.003	
<b>Total National Archives and Records Administration</b>		
Total Expenditures of Federal Awards		

\* Basis of Presentation: This schedule includes the federal grant activity of the Department of State and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

\*\* CFDA is defined as *Catalog of Federal Domestic Assistance*.

For the Fiscal Year Ended September 30, 1997

For the Fiscal Year Ended September 30, 1998

<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
\$ 518	\$ 23	\$ 540	\$ 520	\$ 96	\$ 616	\$ 1,156
		0	33		33	33
<b>\$ 518</b>	<b>\$ 23</b>	<b>\$ 540</b>	<b>\$ 553</b>	<b>\$ 96</b>	<b>\$ 649</b>	<b>\$ 1,189</b>
<u>\$</u>	<u>\$</u>	<u>\$ 0</u>	<u>\$ 8</u>	<u>\$</u>	<u>\$ 8</u>	<u>\$ 8</u>
<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 8</b>	<b>\$ 0</b>	<b>\$ 8</b>	<b>\$ 8</b>
\$	\$	\$ 0	\$ 37	\$	\$ 37	\$ 37
		0	5		5	5
		0		5	5	5
3		3			0	3
22		22			0	22
2	8	10			0	10
<b>\$ 28</b>	<b>\$ 8</b>	<b>\$ 35</b>	<b>\$ 42</b>	<b>\$ 5</b>	<b>\$ 47</b>	<b>\$ 82</b>
<u>\$ 1</u>	<u>\$</u>	<u>\$ 1</u>	<u>\$</u>	<u>\$</u>	<u>\$ 0</u>	<u>\$ 1</u>
<b>\$ 1</b>	<b>\$ 0</b>	<b>\$ 1</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 1</b>
<u>\$ 6</u>	<u>\$ 45</u>	<u>\$ 51</u>	<u>\$ 1</u>	<u>\$</u>	<u>\$ 1</u>	<u>\$ 52</u>
<b>\$ 6</b>	<b>\$ 45</b>	<b>\$ 51</b>	<b>\$ 1</b>	<b>\$ 0</b>	<b>\$ 1</b>	<b>\$ 52</b>
<u>\$ 552</u>	<u>\$ 75</u>	<u>\$ 627</u>	<u>\$ 603</u>	<u>\$ 101</u>	<u>\$ 705</u>	<u>\$ 1,332</u>

# OTHER REQUIRED SCHEDULES

DEPARTMENT OF STATE  
Summary Schedule of Prior Audit Findings  
As of May 21, 1999

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 1994 through September 30, 1996

**Finding Number:** 1

**Finding:** The Department did not reconcile its undistributed receipts fund or determine the amount of overages and shortages from branch offices.

**Comments:** Complied. The Department monthly reconciles undistributed receipts, identifies overages and shortages by branch, and documents overage and shortage accounting entries.

**Audit Period:** October 1, 1994 through September 30, 1996

**Finding Number:** 2

**Finding:** The Department did not have a comprehensive system to properly account for and control motor vehicle license plate and year tab inventories. The Department's internal controls over the license plate and year tab inventory system did not place responsibility for inventory and cash discrepancies or eliminate duplication of effort in recording inventory transactions.

**Comments:** Complied. The Department implemented a license tab printer system in all of its branches, eliminating the need for license tab inventories. The Department also is near completion of an electronic inventory system for its license plate inventories.

**Audit Period:** October 1, 1994 through September 30, 1996

**Finding Number:** 3

**Finding:** The Department did not properly record year-end accounts receivable and revenue for the International Registration Plan (IRP).

**Comments:** Complied. In fiscal year 1996-97, the Department began a process for estimating IRP receivables. In this process, receipts for the first 60 days of the new fiscal year are analyzed for proper fiscal year-end reporting and a review of other states' payment records is performed.

**Audit Period:** October 1, 1994 through September 30, 1996

**Finding Number:** 4

**Finding:** The Department did not maintain an effective internal control structure over the processing of its expenditure transactions.

**Comments:** Complied. The Department improved controls over the processing of its expenditure transactions.

**Audit Period:** October 1, 1994 through September 30, 1996

**Finding Number:** 5

**Finding:** The Department had not established internal control procedures to prevent the terminal operators from directly receiving, logging, and preparing the transactions that they input into the system.

**Comments:** Complied. The Department improved internal controls for terminal operators.

**Audit Period:** October 1, 1994 through September 30, 1996

**Finding Number:** 6

**Finding:** The Department's internal control structure did not ensure that encumbrance carry-forwards were properly established at fiscal year-end in accordance with Department of Management and Budget criteria.

**Comments:** Complied. The Department improved its internal controls for encumbrance reporting.

#### **PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

We did not report any findings related to federal awards in our prior Single Audit.

DEPARTMENT OF STATE  
Corrective Action Plan  
As of December 17, 1999

We did not report any audit findings for fiscal years 1996-97 and 1997-98.

## Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.
IRP	International Registration Plan.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, Single Audits in Michigan are conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material weakness	A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in amounts that would be material in relation to the financial schedules being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely

period by employees in the normal course of performing their assigned functions.

**mission** The agency's main purpose or the reason the agency was established.

**OMB** U.S. Office of Management and Budget.

**questioned costs** Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.

**reportable condition** A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the Department's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

**Single Audit** A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

**SOMCAFR** *State of Michigan Comprehensive Annual Financial Report.*